CANADIAN EXPORT GAS & OIL LTD. ANNUAL REPORT APRIL 30, 1972

DIRECTORS	AUGUST F. BECK, *Calgary* *President and General Manager of the Company*
	F. R. BURTON, *Toronto* *President and a Director of Alminex Limited*
	JOHN DRYBROUGH, *Winnipeg* *Vice-Chairman of the Board of Newmont Mining Corporation of Canada Limited*
	FRANCIS KERNAN, *New York* *Director and Consultant of White, Weld & Co. Incorporated*
	P. C. LAUINGER, *Tulsa* *Chairman of the Board* *The Petroleum Publishing Company*
	PLATO MALOZEMOFF, *New York* *Chairman of the Board, President and a Director of Newmont Mining Corporation*
	MILTON H. MANDEL, *New York* *An Attorney-at-Law*
	FRANZ SCHNEIDER, *New York* *Financial Consultant*
OFFICERS	AUGUST F. BECK, *President and General Manager* PAUL C. EVANS, *Vice-President – Production* W. P. HANCOCK, *Vice-President – Exploration* DEREK N. WALKER, *Secretary-Treasurer* JOHN P. FITZ-GIBBON, *Assistant Secretary*
HEAD OFFICE	736 - 8TH AVENUE S.W., CALGARY, ALBERTA T2P 1H4
SUBSIDIARIES	CANADIAN EXPORT GAS & OIL (U.K.) LIMITED CANEX GAS LTD. CEGO MINERALS LTD.
SHARES LISTED	AMERICAN STOCK EXCHANGE, *New York* MIDWEST STOCK EXCHANGE, *Chicago* THE TORONTO STOCK EXCHANGE
TRANSFER AGENTS	CROWN TRUST COMPANY, *Calgary and Toronto* HARRIS TRUST AND SAVINGS BANK, *Chicago* BANKERS TRUST COMPANY, *New York*
REGISTRARS	CROWN TRUST COMPANY, *Calgary and Toronto* AMERICAN NATIONAL BANK AND TRUST COMPANY, *Chicago* THE BANK OF NEW YORK, *New York*
AUDITORS	PEAT, MARWICK, MITCHELL & CO., *Calgary*

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HIGHLIGHTS

		1971-72	1970-71
PRODUCTION (Net after royalties):			
Oil and Gas Liquids Production – Annual	Barrels	569,483	480,268
– Daily Average	Barrels	1,560	1,316
Gas Production – Annual	Billion Cubic Feet	9.670	6.804
– Daily Average	Million Cubic Feet	26	19
Sulphur Production – Annual	Long Tons	20,616	5,466
– Daily Average	Long-Tons	56	15
EARNINGS:			
Gross operating income less royalties paid:			
Oil and gas liquids sales		$1,578,000	$1,239,000
Natural gas sales		$1,710,000	$1,068,000
Royalty income		$ 188,000	$ 158,000
Sulphur sales		$ 20,000	$ 12,000
		$3,496,000	$2,477,000
Cash flow from operations		$2,108,000	$1,101,000
Per share		26¢	14¢
Net earnings before extraordinary item		$ 424,000	$ 203,000
Per share		5¢	2¢
Net earnings		$ 586,000	$ 421,000
Per share		7¢	5¢
CAPITAL INVESTMENT:			
Exploration		$1,015,000	$1,015,000
Development		$ 247,000	$1,529,000

TO THE SHAREHOLDERS

Highlights of the past year include:

- Record gross income and cash flow. (See below, and pages 12 and 13).
- Record production of both oil and gas (See below, and page 5).
- The acquisition of a 10% interest in five blocks, comprising about 285,000 acres, in the United Kingdom sector of the North Sea (See below, and page 8).
- Three successful exploratory gas wells, in which the Company has a 50% interest, drilled in the Provost area. (See page 6).
- The successful completion of a flowing oil-well, in which the Company has a 50% interest, in the Swan Hills oil field. (See page 4).

Financial

Gross operating income of $3,496,000 was 41% higher than last year. Cash flow increased 91% to $2,108,000. Net earnings of $424,000 before extraordinary items were 100% higher than the previous year. Net earnings including gains on sales of properties were $586,000 compared with $421,000 last year.

Drilling

The Company participated in 26 exploratory wells and two development wells. This activity resulted in one oil discovery, one development oil well and five exploratory gas well completions. Eight of the exploratory wells were drilled under farmout arrangements at no cash cost to the Company.

Production

The Company's oil and gas liquid production in the fiscal year 1971-72 was 569,483 barrels, compared to 480,268 barrels the previous year. This was an increase of 19%.

CEGO's net gas production of 9.670 billion cubic feet for the fiscal year 1971-72, compared to 6.804 billion cubic feet during the previous year, represented an increase of 42%.

Exploration

Your Company is continuing its exploration in eastern and central Alberta, where well and land costs are reasonable but the potential per well is on the low side and in the deeper plains and foothills belt where a lower density of drilling offers a high potential per well but at a much greater cost. The Company is also continuing to be active in northeastern British Columbia and the Northwest Territories.

However, the main attention and exploration effort, and expenditures, of industry in Canada is being focused on regions in the Mackenzie Delta—Beaufort Sea, Arctic Islands and offshore East Coast areas. Your Company's representation in all but the Arctic Islands provides interesting and important protection in these frontier areas, especially the Beaufort Sea—Mackenzie Delta area. Also, the very encouraging reports of 'giant' oil discoveries in the North Sea offshore provides another area of opportunity—an area where the dollars invested go directly into exploration and drilling costs with no bonus land costs involved. Exposure to the latter type of play may provide the Company with a potential participation in the world's changing hydrocarbon market. Other areas of the world offering interesting opportunities are also under consideration.

General

The changing pattern of exploration being experienced by the entire industry, as reflected by your Company's exploration program noted above, will be aggravated by any form of increased taxation or governmental restrictions. The Government of Alberta is considering taxation on petroleum reserves. This additional burden, coupled with increasingly difficult exploration prospects can only result in a continuing decline of industry activity in Alberta. This would be unfortunate since discovery of the remaining oil and gas reserves is dependent on an economic environment which is competitive with other areas of the world.

Corporate

The Management regretfully accepted the resignation of Francis E. Rinehart as Director and Assistant Secretary and wishes to express sincere appreciation for his valuable contributions and efforts on behalf of the Company. The Company is pleased to be able to announce that Mr. John P. Fitz-Gibbon of Newmont Mining Corporation, has been appointed Assistant Secretary.

On May 1, 1972, Canex Gas Ltd., a wholly-owned subsidiary company, assigned all its assets to the Company and took action to surrender its Charter. On the same date, CEGO Minerals Ltd., another wholly-owned subsidiary company, also assigned all its assets to the Company and was placed in voluntary liquidation. The purpose of these dissolutions is to consolidate all Canadian assets and operations under the direct control of the Company and to simplify administrative procedures. As the subsidiary companies being dissolved were previously wholly-owned, the rights of the Company's existing shareholders will not be affected in any way.

This year's breakthrough into new high revenue levels is attributable to many years of effort by the Company's staff. The service record of 18 of the 31 member staff goes back 10 years or more. On behalf of Management and the shareholders, I wish to thank every employee for a job well done.

On behalf of the Board,

A. F. Beck

A. F. Beck
President

June 1, 1972

PRODUCTION

Oil & Gas Liquids Production

CEGO's oil and gas liquids production in the fiscal year 1971-72 was 569,483 barrels compared to 480,268 barrels the previous year. This amounted to an increase of 19% and a record for the Company.

Net gas production for the 1971-72 fiscal year was also a new production record for the Company and amounted to 9.670 billion cubic feet which was 42% over the 6.804 last year.

The Strachan Gas Plant produced at or near full capacity for the entire fiscal year thereby contributing in large measure to the production records. Consideration is being given to construction of a liquid petroleum gas recovery unit which will increase the condensate yield from the plant.

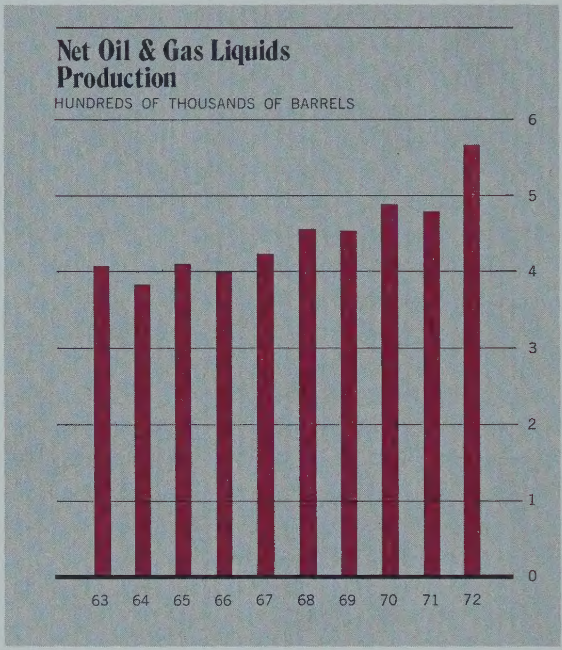
A flowing oil well on 640 acres on the edge of the Swan Hills field in which the Company has 50% interest, was completed during the third quarter. Additional activity on this acreage block will depend on further geological studies and more production history.

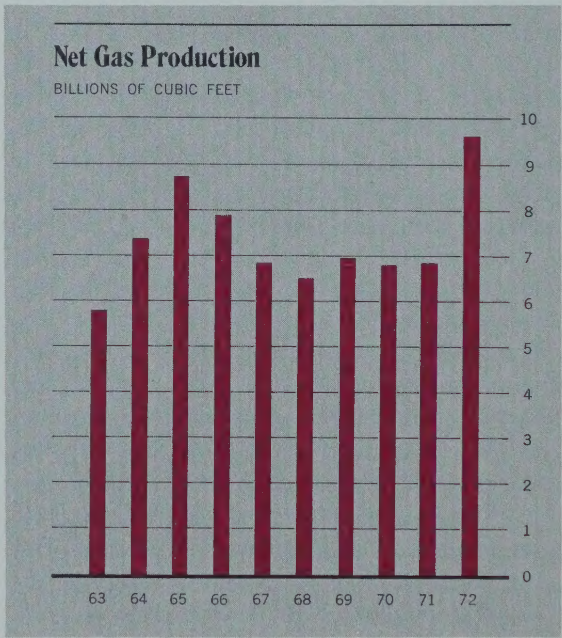
Negotiations are under way for the unitization of the Meekwap oil field during the coming year, so that water flooding can be implemented to enhance recovery and production from this reservoir.

The Company accepted a cash offer for its interest in the Glen Ewen secondary recovery unit which is one of the oldest water flood projects in the Florence-Carnduff oil producing field in southeastern Saskatchewan.

The development and sale of CEGO's new gas reserves in the Provost area will be delayed until the National Energy Board ruling related to export of gas is modified and prices can be obtained which are more comparative with other sources of energy.

Sulphur production amounted to 20,616 long tons compared to 5,466 long tons last year. All of the Strachan sulphur production and the bulk from other areas is being stockpiled until an improvement in sulphur market conditions develops.





Net Oil & Gas Liquids Production by Fields

(After Royalties)

	(Net Barrels)				
	1972	1971	1970	1969	1968
Virden-Roselea, Man.	152,225	163,147	172,152	161,962	148,192
Florence-Carnduff, Sask.	49,727	58,381	64,580	71,352	79,479
Swan Hills, Alberta	81,342	84,359	88,088	70,140	57,734
Big Valley, Alberta	49,255	41,975	37,722	30,681	35,704
Crossfield, Alberta	21,301	20,868	22,025	30,635	37,947
Virginia Hills, Alberta	21,124	23,899	24,294	22,753	17,823
Northgate, Sask.	8,314	8,638	10,926	14,923	22,536
Manyberries, Alberta	7,591	7,049	9,754	10,798	12,483
Wood River, Alberta	2,888	4,368	4,750	5,532	6,178
Browning-Willmar, Sask.	5,029	6,367	5,705	4,308	11,211
Swalwell, Alberta	2,894	2,895	2,080	1,710	2,295
Zama, Alberta	7,201	11,763	11,581	—	—
Meekwap, Alberta	29,095	6,435	—	—	—
Strachan, Alberta	124,316	27,795	—	—	—
Other Areas	7,181	12,329	32,535	15,935	11,447
	569,483	480,268	486,192	440,729	443,029

Net Gas Production by Fields

(After Royalties)

	(Billion Cubic Feet)				
	1972	1971	1970	1969	1968
Steveville	1.135	1.320	1.690	2.065	2.115
Bindloss	1.965	1.923	2.157	1.731	1.706
Hilda	1.491	1.533	1.644	1.703	1.395
Sedalia	0.417	0.393	0.397	0.392	0.348
Wood River	0.131	0.173	0.244	0.348	0.276
Atlee-Buffalo-Jenner	0.107	0.103	0.199	0.287	0.289
Countess-Duchess	0.060	0.085	0.085	0.104	0.109
East Crossfield	0.105	0.110	0.098	0.070	0.019
Crossfield Turner Valley	0.050	0.045	0.044	0.039	0.038
Strachan	4.149	1.014	—	—	—
Other Areas	0.060	0.105	0.221	0.207	0.267
	9.670	6.804	6.779	6.946	6.562

EXPLORATION & LAND

ALBERTA

The Company participated in 26 exploratory wells during the past year, eight of these being drilled under farmout arrrangements at no cash cost to the Company. This activity resulted in one oil discovery and five gas well completions. Further drilling to evaluate the oil discovery at Willow Creek in Alberta is under consideration. Three of the gas wells are in the Provost area. The others at Saddle Lake and Sampson in Alberta have been capped pending further exploration in the area.

The Company's efforts continue in the Deep Basin-Foothills area mentioned in last year's report. The two wells drilled in the Lovett and Moberley areas in 1971 have been abandoned. Acreage in the Pinto area has been dropped without drilling. However, the results of an additional seismic program in the Nose Creek area (140,576 acres, 12½% interest) have increased interest in this area.

NORTHWEST TERRITORIES (See map Mackenzie Delta)

The enthusiastic reports regarding the recent discoveries in the Mackenzie Delta highlight the potential of the Company's offshore position in this area. Imperial Oil has announced an agreement with two U.S. gas companies involving sale of up to ten trillion cubic feet of gas which supports the belief that this area will be the first of Canada's frontiers to be linked with the energy markets of North America.

Announcements of pooling of technical and financial resources of major permit holders in the Beaufort Sea leads to expectations of early offshore drilling in this region. CEGO completed a further 149 miles of seismic shooting over the westernmost area of its permit lands. The results of this work have indicated structural features of sufficient magnitude to warrant additional investigations. Further seismic activity is planned for the coming year.

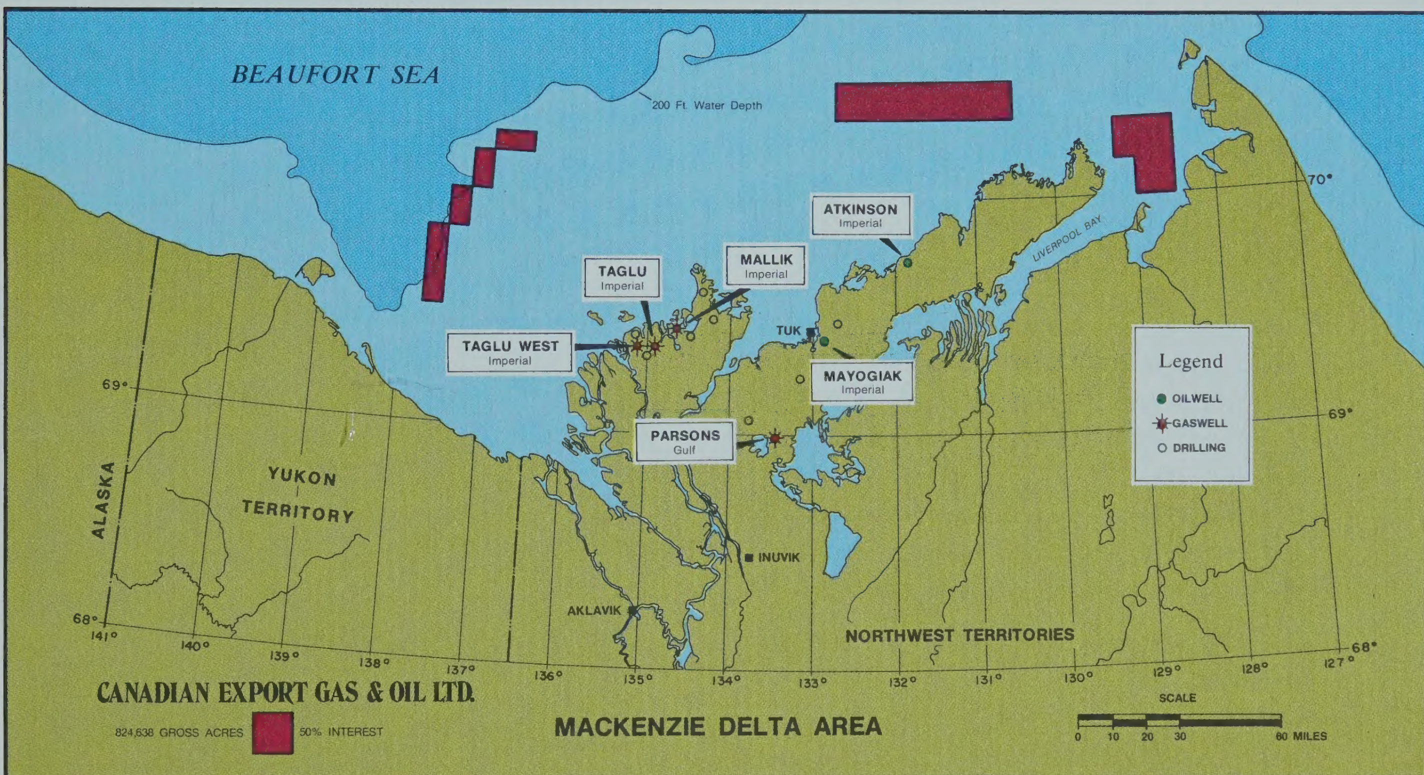
The Company participated in a 600 mile seismic program over its acreage in Great Bear Lake, which completes the exploratory plans for this acreage.

Another seismic program is planned for 53,000 acres in the Carcajou area, 70 miles northwest of the Norman Wells oil field.

HUDSON BAY

A reconnaissance seismic program over the Company's offshore acreage in Hudson Bay has been conducted by Mobil Oil, thereby earning that Company a 50% interest in 2 million acres.

Published information indicates that other operators plan a renewal of drilling activity in this offshore area in 1973. Further plans for CEGO's joint holdings have not yet been formulated.


BEAUFORT SEA
200 Ft. Water Depth
ATKINSON
Imperial
MALLIK
Imperial
TAGLU
Imperial
TAGLU WEST
Imperial
TUK
MAYOGIAK
Imperial
PARSONS
Gulf
LIVERPOOL BAY
Legend
OILWELL
GASWELL
DRILLING
ALASKA
YUKON
TERRITORY
INUVIK
AKLAVIK
NORTHWEST TERRITORIES
70°
69°
68°
141°
140°
139°
138°
137°
136°
135°
134°
133°
132°
131°
130°
129°
128°
127°
CANADIAN EXPORT GAS & OIL LTD.
824,638 GROSS ACRES
50% INTEREST
MACKENZIE DELTA AREA
SCALE
0
10
20
30
60 MILES

EAST COAST OFFSHORE

No exploration was carried out on the East Coast permits during the past year. Four permits off the Nova Scotia coast were allowed to lapse based on results of previous studies.

NORTH SEA

The award of two permits (known as 42/15 and 43/11) in the United Kingdom sector of the North Sea to a group in which the Company has 10% participation was announced December 23, 1971. These permits, totalling about 120,000 acres in the southern area of the North Sea, lie 40 miles north of the West Sole gas field. A seismic program is planned.

A further award of three blocks totalling approximately 165,000 acres in which the Company also has a 10% interest, was announced March 15, 1972. All three blocks are in the potentially oil productive portion of the North Sea. Block 21/2 lies 20 miles northwest of the Forties field, generally regarded as one of the giant oil fields. A second block, 29/6, is 40 miles northwest of the Auk oil field, also highly regarded as a potential major reserve. The third block 29/27, is about 40 miles southwest of the Auk field. Something of the geological structure of these three blocks is known from existing geophysical data and a program of detailed seismic coverage is to be carried out in the immediate future.

LAND AND ROYALTY HOLDINGS

as at April 30, 1972

	Gross	Net
Alberta	946,511	365,685
Saskatchewan	9,626	7,537
Manitoba	1,370	1,370
British Columbia . .	36,592	11,682
East Coast	732,901	366,450
Northwest Territories .	920,565	294,674
Beaufort Sea	824,638	412,319
Hudson Bay	2,052,430	1,026,215
North Sea	285,000	28,500
	5,809,633	2,514,432

ROYALTY INTERESTS

	Gross	Royalty Interest
Alberta	640	15%
	12,715	Varying Interests
	5,742	10%
	480	2%
	310	½%
Total Alberta	19,887	
Saskatchewan	142,461	2½%
	6,600	Varying Interests
	12,360	Mineral Titles
	318	5%
Total Saskatchewan	161,739	
Manitoba	800	5%
	2,963	Varying Interests
	4,410	½ Mineral Titles
Total Manitoba	8,173	
Northwest Territories	31,122	0.34%
Total Royalty and Mineral Interests	220,921	


CANADIAN EXPORT GAS & OIL LTD.
NORTH SEA
Legend
GAS FIELD
OIL FIELD
COMPANY ACREAGE
285,000 Gross 28,500 Net
SCALE 0 25 50 MILES
Forties
Montrose
ABERDEEN
Torfeld
Ekofisk
Eldfisk
Josephine
Auk
U.K. Norway
U.K. Den
Ger.
Denmark Germany
Germany Holland
U.K. Holland
NEWCASTLE
West Sole
HULL
MANCHESTER
Viking North
Indefatigable
Broken Bank
N. Hewett
Lemon Bank
Hewett
BIRMINGHAM
ENGLAND
LONDON
AMSTERDAM
NETHERLANDS
ROTTERDAM
U.K. Belgium
ANTWERP

Beaufort Sea
412,319 Net Acres
ALASKA
See Detailed Map Page 7
YUKON TERRITORY
Carcajou
6,623 Net Acres
Great Bear Lake
287,117 Net Acres
NORTHWEST TERRITORIES
BRITISH COLUMBIA
ALBERTA
SASKATCHEWAN
MANITOBA
Edmonton
Calgary
Vancouver
Regina
Winnipeg
UNITED STATES

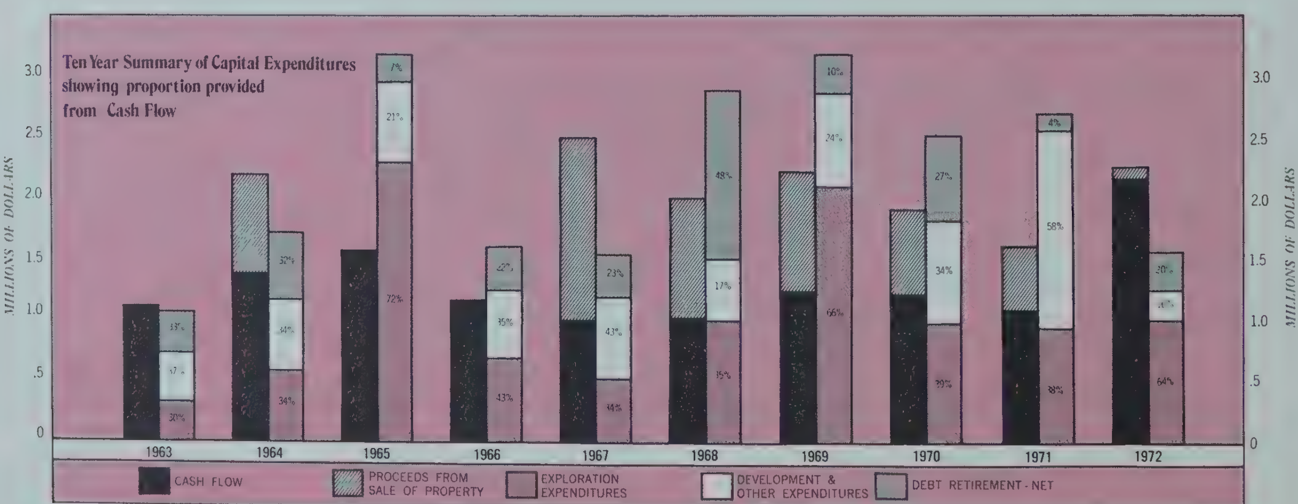

CANADIAN EXPORT GAS & OIL LTD.
LAND HOLDINGS
Gross Acres
5,809,633
Net Acres
2,514,432
SCALE IN MILES
0
190
380
Hudson Bay
1,026,215 Net Acres
Labrador
320,475 Net Acres
NEWFOUNDLAND
QUEBEC
ONTARIO
NEW BRUNSWICK
P.E.I.
NOVA SCOTIA
Halifax
Montreal
Nova Scotia
45,975 Net Acres

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

Year ended April 30, 1972
(with comparative figures for 1971)

	1972	1971
SOURCE OF FUNDS:		
Cash flow from operations (net earnings plus provisions, dry holes and abandoned properties, less gain on sale of properties)	$ 2,108,000	$ 1,101,000
Bank loans	—	693,000
Proceeds from sale of properties	165,000	563,000
Proceeds from sale of capital stock	—	5,000
TOTAL FUNDS AVAILABLE	$ 2,273,000	$ 2,362,000
DISPOSITION OF FUNDS:		
Exploration:		
Land acquisition and exploration surveys	$ 375,000	$ 532,000
Increase in work obligation deposits	151,000	—
Wildcat and stepout drilling	489,000	483,000
Development and other expenditures:		
Drilling and equipment of wells	148,000	298,000
Gas gathering systems, plants and miscellaneous, net	99,000	1,231,000
FUNDS INVESTED IN THE COMPANIES	1,262,000	2,544,000
Long-term debt reduction:		
Companies' sinking fund debentures	—	111,000
Bank loans	320,000	—
TOTAL FUNDS USED	1,582,000	2,655,000
Increase (reduction) in working capital	691,000	(293,000)
	$ 2,273,000	$ 2,362,000

See accompanying notes



CONSOLIDATED STATEMENT OF EARNINGS

Year ended April 30, 1972
(with comparative figures for 1971)

		1972	1971
OPERATING INCOME:			
Oil and gas sales, less royalties		$ 3,288,000	$ 2,307,000
Royalty income		188,000	158,000
Sulphur sales		20,000	12,000
		3,496,000	2,477,000
Less production expenses		711,000	679,000
		2,785,000	1,798,000
Deduct administrative and general expenses		342,000	297,000
Net operating profit before the following		2,443,000	1,501,000
OTHER CHARGES, net:			
Share transfer and other shareholder expenses	$ 70,000		90,000
Acreage rentals on non-producing properties	206,000		249,000
Interest on debentures	1,000		15,000
Interest, other	79,000		79,000
Amortization of bond discount	—		8,000
Dry holes and abandoned properties	964,000		398,000
	1,320,000		839,000
Deduct miscellaneous income	21,000		33,000
		1,299,000	806,000
Net earnings before the following provisions		1,144,000	695,000
PROVISIONS:			
Depletion and amortization	489,000		343,000
Depreciation	231,000		149,000
		720,000	492,000
Net earnings before extraordinary item		424,000	203,000
EXTRAORDINARY ITEM:			
Gain on sale of property		162,000	218,000
Net earnings (Note 6)		$ 586,000	$ 421,000
Earnings per share (Note 7):			
Earnings before extraordinary item		$.05	$.02
Earnings for the year		$.07	$.05

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended April 30, 1972
(with comparative figures for 1971)

	1972	1971
RETAINED EARNINGS, at beginning of year	$ 5,915,000	$ 5,494,000
Net earnings for year	586,000	421,000
RETAINED EARNINGS, at end of year	$ 6,501,000	$ 5,915,000

See accompanying notes

CONSOLIDATED BALANCE SHEET

April 30, 1972

(with comparative figures for 1971)

Assets

		1972	1971
CURRENT ASSETS:			
Cash and deposit receipts		$ 650,000	$ 187,000
Marketable securities (quoted market value $83,000; 1971 — $210,000)		41,000	169,000
Accounts receivable		831,000	827,000
Inventories of equipment, at the lower of cost or net realizable value		37,000	50,000
Total current assets		1,559,000	1,233,000
REFUNDABLE DEPOSITS AND INVESTMENTS, at cost (Note 1)		467,000	316,000
FIXED ASSETS, at cost (Note 2):			
Productive properties and equipment	$15,379,000		15,431,000
Other assets	130,000		122,000
	15,509,000		15,553,000
Less accumulated depreciation, depletion and amortization	6,576,000		6,309,000
	8,933,000		9,244,000
Undeveloped properties	3,347,000		3,588,000
	12,280,000		12,832,000
Exploration and preproduction expenditures (unamortized) (Note 1)	1,549,000		1,574,000
		13,829,000	14,406,000
		$15,855,000	$15,955,000

Liabilities

		1972	1971
CURRENT LIABILITIES:			
Accounts payable and accrued expenses		$ 323,000	$ 737,000
Payments required for debenture sinking funds		—	110,000
Bank loans due within one year (secured) (Note 2)		720,000	562,000
Total current liabilities		1,043,000	1,409,000
BANK LOANS, net of current portion (secured) (Note 2)		515,000	835,000
SHAREHOLDERS' EQUITY:			
Capital stock:			
Shares of a par value of 16⅔ cents each Authorized 12,000,000 shares;			
Issued 8,168,577 shares	$ 1,362,000		1,362,000
Contributed surplus	6,434,000		6,434,000
	7,796,000		7,796,000
Retained earnings	6,501,000		5,915,000
		14,297,000	13,711,000
		$15,855,000	$15,955,000

Approved on behalf of the Board:

August F. Beck, Director

John Drybrough, Director

See accompanying notes

NOTES TO FINANCIAL STATEMENTS April 30, 1972

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all of the company's subsidiaries as at April 30, 1972. All inter-company accounts and transactions have been eliminated in consolidation.

On May 1, 1972 the Canadian subsidiaries (both of which were wholly-owned) were wound up and the assets, operations and liabilities were transferred to the parent company.

In settlement of advances the company has received from a former subsidiary, Bluewater Oil & Gas Limited, a 5% convertible floating charge debenture in the amount of $300,000, due in varying amounts from 1975 to 1979, which is included in the accompanying balance sheet under refundable deposits and investments at the net cost of $159,000.

Exploration and preproduction expenditures incurred to June 30, 1957 by a subsidiary company, Canex Gas Ltd., are being amortized by the unit of production method based on estimated recoverable gas reserves of that company as at that date.

2. BANK LOANS:

Although the bank loans are subject to call on demand, under the agreed terms of repayment an amount of approximately $720,000 will be repaid with the next twelve months. These loans are secured by certain of the companies' properties and production proceeds.

3. CAPITAL STOCK:

The company has reserved 113,000 shares of its capital stock for stock options to employees as follows:

13,000 shares at $7.15 per share granted to three employees (exercisable one-fifth each year commencing February 1, 1969 on a cumulative basis and expiring May 31, 1973).

100,000 shares authorized to be granted by the President until June 1, 1976 at the market price per share on the day of the grant (exercisable one-fifth each year on a cumulative basis). At April 30, 1972 5,000 shares had been granted at $4.50 per share expiring December 10, 1976.

4. CONTINGENT ACCOUNT RECEIVABLE:

In 1967, the company sold an interest in certain non-producing properties for $6,000,000 of which $4,000,000 has been received in instalments over the past five years and included in the appropriate financial statements. Under the terms of the agreement the remaining $2,000,000 is receivable on or before December 31, 1972, subject to reduction by the amount spent by the purchaser, on the company's behalf, in exploring the joint properties. At April 30, 1972, the unexpended balance amounted to $1,670,000 and this is not reflected in the financial statements as the ultimate balance receivable cannot be determined.

5. REMUNERATION PAID TO DIRECTORS AND SENIOR OFFICERS:

Remuneration paid during the year to directors and senior officers amounted to $142,000 (1971 — $129,000).

NOTES TO FINANCIAL STATEMENTS -Continued

6. INCOME TAXES:

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in the accounts. The capital cost allowances claimed are not significantly different from the depreciation provided in the accounts.

Drilling, exploration and lease acquisition costs in excess of taxable income may be carried forward and applied against earnings in future years. At April 30, 1972, no income taxes were payable and the companies on a consolidated basis were entitled to carry forward expenditures estimated to be as follows:

Drilling, exploration and lease acquisition costs	\$ 1,635,000
Capital cost allowances	\$ 2,872,000

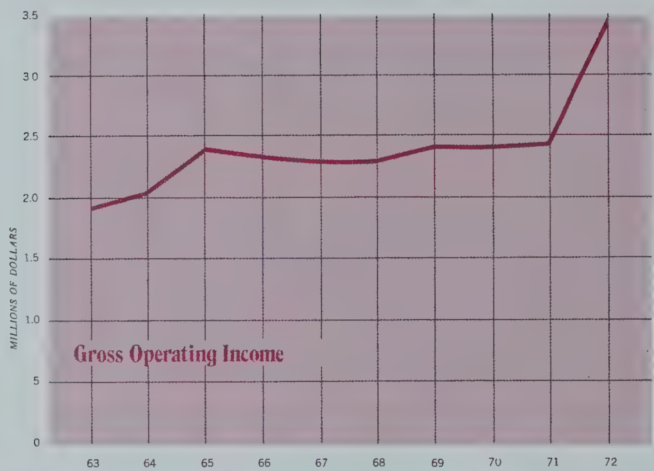
The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants has recommended that the income tax allocation method of accounting should be adopted whereby a provision is made for income taxes based on the earnings reported in the accounts. However, management does not believe it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs insofar as it presently intends to continue to incur such expenditures and therefore it is not possible to estimate when income taxes will be payable. This view of management conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada.

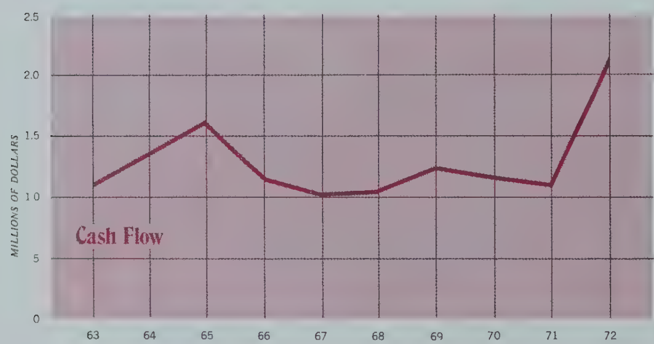
If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of \$240,000 (\$77,000 in 1971) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately \$2,926,000 at April 30, 1972.

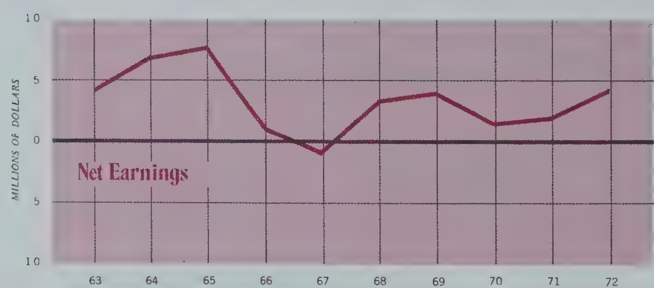
7. EARNINGS PER SHARE:

Earnings per share figures are calculated using the weighted average number of shares outstanding during the respective fiscal years. Fully diluted earnings per share are not presented as there would be no material change.

TEN YEAR STATISTICAL SUMMARY 1963/72







PRODUCTION:	
Oil—Annual	Barrels
Daily Average	Barrels
Gas—Annual	Billion Cubic Feet
Daily Average	Million Cubic Feet
Sulphur—Annual	Long Tons
Daily Average	Long Tons
EARNINGS:	
Gross operating income less royalties paid	$
Production expenses	$
Administrative and general expenses	$
Share transfer and other shareholder expenses	$
Acreage rentals on non-producing properties	$
Interest and miscellaneous, net	$
	$
Cash flow from operations	$
Dry holes and abandoned properties	$
Other non-cash charges or (income) net	$
	$
Net earnings before depletion and depreciation	$
Depletion and depreciation	$
Net earnings (loss) before extraordinary items	$
Extraordinary items—gain or (loss) net	$
Net earnings	$
CAPITAL STRUCTURE:	
Number of shares outstanding	
Shareholders equity	$
Funded debt	$
Bank and other loans	$
(Working capital) or deficiency	$
Total capital employed	$
CAPITAL INVESTMENT:	
Fixed assets, net—beginning of year	$
Exploration expenditures	$
Development expenditures	$
(Abandonments, provisions and adjustments, net)	$
Fixed assets, net—end of year	$
Deferred charges, unamortized	$
Other non-current assets	$
Total capital invested	$
SIGNIFICANT RATIOS:	
Net earnings to gross earnings	%
Cash flow to gross earnings	%
Operating expenses to gross earnings	%
Net earnings return on capital invested	%
Shareholders' equity to total capital employed	%
Cash flow per share	¢
Net earnings before extraordinary items per share	¢
Net earnings per share	¢
WELLS DRILLED—GROSS (NET):	
Exploratory —Oil	
Gas	
Dry	
Development—Oil	
Gas	
Dry	
Total wells drilled	
Total footage drilled	
LAND HOLDINGS:	
Gross acreage	
Net acreage	
OWNERS AND EMPLOYEES:	
Number of shareholders	
Number of employees	

1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
569,483	480,268	486,192	440,729	443,029	425,690	403,883	414,111	382,515	414,404
1,560	1,316	1,332	1,207	1,214	1,166	1,107	1,135	1,048	1,135
9.670	6.804	6.779	6.946	6.562	6.867	7.945	8.710	7.466	5.752
26	19	19	19	18	19	22	24	20	16
20,616	5,466	3,855	2,992	—	—	—	—	—	—
56	15	11	8	—	—	—	—	—	—
496,000	2,477,000	2,419,000	2,420,000	2,290,000	2,259,000	2,337,000	2,397,000	2,102,000	1,915,000
711,000	679,000	582,000	540,000	538,000	498,000	518,000	438,000	401,000	418,000
342,000	297,000	278,000	253,000	281,000	264,000	224,000	102,000	103,000	134,000
70,000	90,000	98,000	73,000	110,000	124,000	74,000	33,000	29,000	25,000
206,000	249,000	186,000	221,000	190,000	175,000	216,000	124,000	45,000	47,000
59,000	61,000	94,000	89,000	147,000	180,000	133,000	112,000	129,000	165,000
388,000	1,376,000	1,238,000	1,176,000	1,266,000	1,241,000	1,165,000	809,000	707,000	789,000
108,000	1,101,000	1,181,000	1,244,000	1,024,000	1,018,000	1,172,000	1,588,000	1,395,000	1,126,000
964,000	398,000	469,000	317,000	157,000	515,000	498,000	256,000	220,000	146,000
—	8,000	10,000	10,000	10,000	10,000	10,000	(12,000)	(5,000)	(10,000)
964,000	406,000	479,000	327,000	167,000	525,000	508,000	244,000	215,000	136,000
144,000	695,000	702,000	917,000	857,000	493,000	664,000	1,344,000	1,180,000	990,000
720,000	492,000	523,000	521,000	557,000	591,000	638,000	526,000	502,000	502,000
424,000	203,000	179,000	396,000	300,000	(98,000)	26,000	818,000	678,000	488,000
162,000	218,000	196,000	—	—	3,592,000	—	—	542,000	—
586,000	421,000	375,000	396,000	300,000	3,494,000	26,000	818,000	1,220,000	488,000
168,577	8,168,577	8,166,677	8,141,944	8,059,944	7,919,769	7,828,394	7,828,394	7,828,394	7,828,394
297,000	13,711,000	13,284,000	12,807,000	11,694,000	10,976,000	7,250,000	7,281,000	6,464,000	5,243,000
—	—	111,000	453,000	707,000	1,033,000	1,284,000	1,535,000	1,784,000	2,033,000
515,000	835,000	142,000	498,000	580,000	1,661,000	1,768,000	1,667,000	226,000	537,000
516,000)	176,000	(118,000)	(535,000)	(765,000)	(1,233,000)	135,000	196,000	28,000	385,000
296,000	14,722,000	13,419,000	13,223,000	12,216,000	12,437,000	10,437,000	10,679,000	8,502,000	8,198,000
832,000	11,496,000	10,624,000	8,922,000	8,112,000	8,500,000	8,185,000	6,266,000	5,935,000	5,953,000
015,000	1,015,000	993,000	2,096,000	1,009,000	515,000	692,000	2,296,000	571,000	328,000
247,000	1,529,000	844,000	741,000	494,000	654,000	569,000	673,000	552,000	400,000
814,000)	(1,208,000)	(965,000)	(1,135,000)	(693,000)	(1,557,000)	(946,000)	(1,050,000)	(792,000)	(746,000)
280,000	12,832,000	11,496,000	10,624,000	8,922,000	8,112,000	8,500,000	8,185,000	6,266,000	5,935,000
549,000	1,574,000	1,608,000	1,649,000	1,690,000	1,729,000	1,768,000	1,812,000	1,861,000	1,906,000
467,000	316,000	315,000	950,000	1,604,000	2,596,000	169,000	682,000	375,000	357,000
296,000	14,722,000	13,419,000	13,223,000	12,216,000	12,437,000	10,437,000	10,679,000	8,502,000	8,198,000
12	8	7	16	13	—	1	34	32	25
60	44	49	51	45	45	50	66	66	59
30	39	36	33	36	34	32	23	24	29
3	1	1	3	3	—	—	8	8	6
100	93	99	97	96	88	69	68	76	64
26	14	14	15	13	13	15	20	18	14
5	2	2	5	4	—	—	10	9	6
7	5	5	5	4	44	—	10	16	6
1 (0.3)	— (—)	2 (0.2)	2 (0.5)	— (—)	3 (1.0)	3 (1.5)	4 (1.8)	2 (0.7)	— (—)
5 (2.2)	1 (0.1)	1 (0.1)	3 (0.1)	4 (0.8)	1 (0.3)	1 (0.5)	— (—)	— (—)	2 (0.2)
20 (5.1)	9 (0.9)	11 (1.1)	12 (2.9)	6 (—)	14 (2.5)	12 (4.8)	7 (3.2)	15 (3.9)	8 (1.9)
1 (0.5)	3 (0.6)	2 (0.7)	1 (0.3)	2 (0.7)	6 (2.0)	9 (4.1)	10 (3.8)	2 (0.7)	— (—)
— (—)	2 (0.3)	4 (0.5)	14 (9.2)	3 (0.8)	3 (2.5)	2 (2.0)	— (—)	— (—)	3 (3.0)
1 (0.2)	1 (0.2)	1 (—)	1 (1.0)	— (—)	1 (0.5)	3 (1.2)	1 (0.3)	1 (0.2)	— (—)
28 (8.3)	16 (2.1)	21 (2.6)	33(14.0)	15 (2.3)	28 (8.8)	30(14.1)	22 (9.1)	20 (5.5)	13 (5.1)
128,000′	129,000′	178,000′	177,000′	75,000′	126,000′	129,000′	123,000′	100,000′	63,000′
810,000	6,006,000	6,530,000	5,365,000	2,159,000	2,221,000	2,698,000	2,832,000	893,000	4,336,000
514,000	2,638,000	2,728,000	3,264,000	703,000	1,105,000	2,042,000	2,227,000	307,000	324,000
12,117	12,584	10,433	9,134	8,992	8,586	7,790	5,022	5,250	5,521
31	31	32	33	33	33	37	38	32	31

AUDITORS' REPORT TO THE SHAREHOLDERS

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS

309 EIGHTH AVENUE S.W.
CALGARY, ALBERTA

We have examined the consolidated balance sheet of Canadian Export Gas & Oil Ltd. and subsidiaries as of April 30, 1972 and the consolidated statements of earnings, retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at April 30, 1972 and the results of their operations and the source and disposition of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co
Chartered Accountants

Calgary, Alberta
May 26, 1972

as a dry hole. The Company drilled and abandoned a well in the Topland area of central Alberta, on lands farmed in from another operator.

The deep plains well drilled by another company at Bottrel, 20 miles northwest of Calgary, reached its objective since the end of the report period and has been abandoned. CEGO had agreed to option certain of its lands in support of this well.

Northwest Territories

CEGO will be participating in a seismic survey this winter in the Carcajou area 20 miles northwest of the Norman Wells oil field. Drilling of this prospect, if warranted, will probably not be undertaken until the 1973-74 drilling season.

General

Under provisions of its contracts with TransCanada PipeLines providing for periodic renegotiation of prices the Company is now having discussions with TransCanada covering approximately half of its gas. The final conclusion to these negotiations could be influenced to some extent by the decisions to be reached by the National Energy Board as a result of hearings now in progress.

The government of Alberta has announced a policy in favour of an increase in the price of gas to a level which will reflect its true value as a desirable form of energy. Increases presently being discussed and contemplated would result in significantly greater direct revenues to the people of Alberta and to the producers. The possibility of such increases has already stimulated an increased drilling and development program in the Province. Actual implementation of a price increase will further stimulate this activity and reflect to the benefit of Alberta and to Canada, both directly and indirectly.

A. F. Beck

A. F. Beck,
President

November 27, 1972.

Additional copies of this report may be obtained from the Company's Head Office, 736 - 8th Avenue S.W., Calgary, Alberta T2P 1H4. The Company does not make any charge for these copies, nor does it accept any distribution charges from nominees or agents.

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

	Six Months Ended October 31 1972	1971
SOURCE OF FUNDS:		
Cash flow	$ 902,000	$1,035,000
Increase in working capital	6,000	270,000
TOTAL FUNDS EMPLOYED	$ 896,000	$ 765,000
DISPOSITION OF FUNDS:		
Exploration:		
Land acquisition and exploration surveys	$ 236,000	$ 156,000
Wildcat and stepout drilling	115,000	158,000
Increase (Decrease) in work obligation deposits	(10,000)	145,000
Development and Other Expenditures:		
Drilling and equipment of wells	22,000	20,000
Gas gathering systems, plants and miscellaneous, net	23,000	85,000
Long term debt reduction	510,000	201,000
TOTAL FUNDS USED	$ 896,000	$ 765,000

The above statement has not been audited and is subject to year end adjustment.

LITHOGRAPHED IN CANADA

INTERIM REPORT

OCTOBER 31st-1972

CANADIAN EXPORT GAS & OIL LTD.
CEGO

CANADIAN EXPORT GAS & OIL LTD.

TO THE SHAREHOLDERS:

Financial

For the six months ended October 31, 1972, the Company's gross income was $1,544,000 compared with last year's record $1,700,000 for the same period. Cash flow was down 13% to $902,000 from last year's record high, and net earnings were $420,000 compared with $597,000 last year. The decline is related primarily to decreased gas production as explained below.

Production

Oil and condensate production for the six month period was 289,766 barrels for an average of 1,575 barrels per day compared to 277,034 and a daily average of 1,506 in the comparable period last year.

Gas production was 4.0 billion cubic feet for a daily average of 22 million cubic feet per day compared to 4.833 billion cubic feet and 26 million cubic feet per day in the same period last year.

Production from the Bindloss field was shut down for the month of July due to an operational problem. Production from the Hilda field was curtailed during the summer months due to repair and new construction to the pipe line systems servicing this area. And thirdly, last year CEGO benefited from exceptionally high gas sales from the Strachan field which did not reoccur in 1972.

Oil and Natural Gas Liquids & Gas Production (after Royalties)

	Six Months Ended October 31 1972	1971
Net Oil and Natural Gas Liquid Production—Bbls.	289,766	277,034
Average per Day—Bbls.	1,575	1,506
Net Gas Production—Bcf.	4.0	4.833
Average per Day—Mmcf.	22	26

North Sea

Results of the seismic program over the North Sea permit blocks are now under study. Of particular interest relating to our northern-most block, 21/2, is proximity of drilling by other operators. Total Petroleum spudded a well and ran surface casing at a location in the northwestern corner of their 21/3 block, 2½ - 3 miles from our land. The drilling vessel has moved off and operations will be resumed at a later date. British Petroleums is currently drilling on block 20/10 about 13 miles west and south of our 21/2. To the south Pennzoil is drilling on block 29/24 approximately 20 miles east and north of our block 29/27.

Arctic

Interpretation of the 200 miles of new seismic data in the Beaufort Sea is nearing completion. Sun Oil has recently become a partner in this project through purchase by them of a net 30% interest from Scurry Rainbow. CEGO's 50% interest in this acreage remains unchanged.

The Company has acquired two permits totalling 85,000 acres in the Greely fiord area off Ellesmere Island in the Arctic Islands. These permits which are entirely offshore, lie 30 miles north of the Panarctic Romulus well.

Alberta

Unfavourable weather delayed commencement of the projected 18,000 foot exploratory well in the Nose Creek area of the northwest Alberta foothills. The well, Union et al Nose Creek 13-32-64-12 W6M, was spudded November 16. CEGO's interest in the well and the adjoining 14,720 acres is 7.8% for a 5% well cost. In addition the Company has 12½% in a further 130,000 acres of adjacent reservation lands.

Locations have been staked for CEGO interest wells in the Provost and Sunset areas. At Provost the Company is a 50% partner in drilling a Viking test to earn a net 25% interest in 5,120 acres of lease lands. At Sunset CEGO is also 50% partner in a Beaverhill test to earn 25% in 3,520 acres excluding Triassic rights. Options are held for additional drilling to earn the same interest in all rights covering a further 4,480 acres.

In the Willow Creek area the second of a four well farmout has been spudded and location for the third well selected.

Three exploratory wells reached their objective depths during the report period. The first of a four well program on Company interest acreage in the Willow Creek area, Alberta, has been suspended as a potential gas producer. In the Wintering Hills area, Alberta, the last of a two well farmout of CEGO interest lands was abandoned

CONDENSED STATEMENT OF EARNINGS

	Quarter Ended October 31 1972	1971	Six Months Ended October 31 1972	1971
Oil and gas sales, less royalties	$710,000	$785,000	$1,449,000	$1,602,000
Royalty Income	49,000	36,000	83,000	85,000
Sulphur Sales	7,000	10,000	12,000	13,000
	766,000	831,000	1,544,000	1,700,000
Production, administrative and general expenses	264,000	244,000	522,000	480,000
NET OPERATING PROFIT	502,000	587,000	1,022,000	1,220,000
Interest on loans	12,000	21,000	27,000	44,000
Acreage rentals and Miscellaneous, net	32,000	49,000	93,000	141,000
CASH FLOW	458,000	517,000	902,000	1,035,000
Dry holes and abandoned properties	95,000	159,000	167,000	174,000
NET EARNINGS BEFORE PROVISIONS	363,000	358,000	735,000	861,000
Provision for depletion and depreciation	156,000	138,000	315,000	264,000
NET EARNINGS	$207,000	$220,000	$ 420,000	$ 597,000
Per Share				
Cash flow	6¢	6¢	11¢	13¢
Net earnings	3¢	3¢	5¢	7¢

The above statement has not been audited and is subject to year end adjustment.